Jay P. Greene's Blog

Petrilli's Regulatory Porridge

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Fordham's Michael Petrilli offers new taxonomy for school choice tribes dividing the school choice world in three: Purists, Nannies, and Realists.

First, as Matt noted, this is not Mike's first foray into Hemisphere Fallacy territory. (Or the second. Or even the third.) Like the guy who thinks anyone who is more religious is crazy and anyone who is less religious is a heretic, Mike thinks he has found the Perfect Goldilocksian Mean and everyone else is wrong. In Mike's view, those who support more regulation than he does are paternalist Nannies, and those who support less regulation are utopian Purists, but the temperature of his regulatory porridge is just right.

Second, as I noted on Twitter, it's adorable that Mike thinks he's not a Nanny. He decries their "micromanagement" but he supports forcing private schools to administer the state test (*de facto* determining what is taught when and even how), as well as price controls that economists will tell you leads to shortages and obliterates the essential price signal(without which we may have competition, but we most certainly do not have a functioning market). He may fancy himself a "Realist" but, if these categories really mean anything, he just has minor disagreements with his fellow Nannies.

Third, Mike is engaging, once again, in the Means and Ends Fallacy. It goes something like this:

> *I think X is a problem. I believe Solution Y solves X. Group A opposes Solution Y, therefore Group A must not think X is really a problem.*

Of course, this is a fallacy because it is entirely possible (as is the case here) that Group A agrees that X is a problem but doesn't think Solution Y actually solves it. Mike thinks his preferred regulations solve the problem of bad schools, but we think those regulations are more likely to have adverse effects. More on that in a moment.

Mike accuses the "Purists" (those who, like Milton Friedman, conclude based on the evidence from nearly every other industry that markets spur innovation and lead to greater quality and efficiency) of being utopian. He writes:

> Start with the Purists. I'm skeptical of all utopian visions, including theirs—one imagining that a full-fledged system of choice (perhaps through universal Education Savings Accounts) will yield greater innovation, productivity, and customer satisfaction—and produce better-educated young people to boot.

But there's nothing utopian about that. We see that ESAs have already begun to produce greater innovation, productivity, and customer satisfaction. We don't yet have any data on test scores or graduation rates, but we have no reason to believe that ESAs will underperform the many voucher programs that have produced positive results. No one in the free-market crowd is expecting miracles. We're expecting the sort of incremental improvement that the market regularly brings about through the process of experimentation, evaluation, and evolution.

(For that matter, the most utopian schemes in education come from the Nannies. Can you imagine a more fantastically utopian scheme than "No Child Left Behind"? Is there a more utopian slogan than that anywhere in education policy? And did anyone in the administration really believe we'd ever achieve 100% proficiency in *any* state, let alone *every* state? Either they set up the nation to fail or they were delusional. Or perhaps they just set up the DOE for a naked power grab. But I digress.)

Mike's central challenge to the Friedmanite crowd is the Payday Lender Problem. What do we do about bad private schools?

First of all, Mike doesn't have a whole lot of evidence that the government does a better job ensuring quality than the market. Indeed, the Louisiana debacle should give him great pause about that article of faith.

Second, eliminating the least-bad option doesn't guarantee a better option. Payday lending serves an important function in the market (in the Third World, we call it "microlending," a concept for which Muhammad Yunus won a Nobel Peace Prize). Poor people who need funds to cover rent or buy food while waiting for payday often turn to payday lenders. If they repay the loan on time, the fees are generally marginal. If they repay late, the interest rates can be exorbitant, especially if (misleadingly) expressed in annual terms. (The interest is so high both because the loans are so small and because the rate of default is so high, which is why banks generally just refuse to lend to the poor.) But eliminating the payday lenders can have serious unintended consequences that make the poor even worse off. The payday lender may charge a steep fee for late payment, but at least Rocky Balboa doesn't come break your legs.

Kicking a school with poor test scores out of a voucher program doesn't guarantee those poor kids a seat at a better school. Rather, the state just eliminates that kid's least-bad alternative. Even in Louisiana, where the voucher schools appear to be doing much worse on the state test than the district school alternatives, the families who chose those schools may well have had good reasons for doing so. Perhaps they were safer. Perhaps they had higher graduation rates. We don't know. But those families chose them for a reason and they may well be worse off overall if deprived of that choice.

Third, as Michael McShane explained previously, the market process has proven time and again to significantly improve absolute quality (andefficiency) over time:

> Cars today are uniformly better than cars in 1950. They are safer. They are faster. They are more comfortable. They are more fuel efficient. But it wasn't a clear upward-sloping line to get here. People bought Edsel's in the 50's, Corvairs in the 60's, Chevettes in the 70's,

> Yugo's in the 80's, Suzuki Sidekicks in the 90's, and Pontiac Aztecs in the 00's. These were bad cars.
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> But "bad" has two meanings in this case, an objective one and a relative one. There are *relatively* bad cars out there today. That is, my hail-damaged '05 Kia Spectra with no cruise control and a blown-out right front speaker is worse than Jay-Z's Maybach on almost every calculable measure, relatively speaking. But my Spectra, which is still purring like a kitten after over 100,000 miles with darn near nothing more than oil changes, tires, and brake pads is a helluva lot better than the burn-out-after-five-years cars that automakers made for decades. That's *absolute*quality.
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> Markets work when the spectrum of relative quality drives improvements in absolute quality. Someone sees my little tin can driving down the road and says "I want to buy a car that doesn't look like it's going to blow away in a stiff breeze" and cars get less tin-canny. Someone buys a Ford Excursion and then gas prices go up and says, "I'm never doing that again" and cars get more fuel efficient. It's a slow winnowing process, but over time it is superior to centralized systems, that, for example, made the Trabant in an essentially unchanged manner for over three decades.
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> Rather than thinking we can regulate bad schools out of existence, a better goal is to develop a system that continuously improves what we think a "bad" school is.

Mike Petrilli is right to be worried about kids who are in bad schools *today*, but the regulations he proposes to ensure that those students are attending relatively good schools interfere with the market process that could otherwise be driving up absolute quality for everyone (and, as Louisiana has shown, those kids may end up in low-performing schools anyway).

Imagine if government officials, following Mike's logic, had decided decades ago that every low-income family should have access to a phone. Now, these Realist officials aren't Nannies — they're not going to have the government make the phones or micromanage the specs. They're just going to ensure that everyone has access to a good phone, so they create a phone voucher but prohibit companies selling phones from charging more than the value of the voucher. What would have happened?

Well, there's the seen and the unseen. We would have seen, perhaps, that everyone would have had access to a phone and many would have applauded that (although given the price controls, it's likely that supply would not have met demand). But what we wouldn't have seen was that the iPhone had not been invented. With no way to charge more than the meager voucher, there'd be no market for expensive smartphones. And that wouldn't just have harmed the wealthy, it would also have harmed the poor. After all, Walmart now sells a $10 smartphone that has better specs that the original iPhone. Innovations that at first benefit the wealthier early adopters tend to benefit even the poor after a while.

In short, Mike's admirable passion to help the poor immediately through state action may well harm them in the medium-to-long run without any guarantee of actually helping them in the short run. That doesn't sound very Realist to me.

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